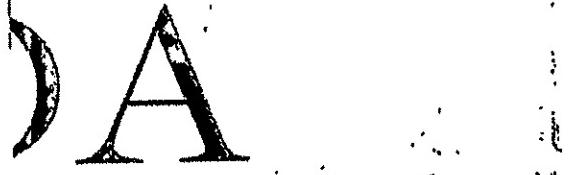


FINANCIAL POST, WEDNESDAY, APRIL 17, 2002



# Teleglobe Inc. bondholders ready to sue BCE

## BCE SHARES KEEP FALLING

**Parent had promised to keep funnelling money to Teleglobe**

BY MICHAEL LEWIS

Teleglobe Inc. bondholders say they are prepared to take the company and parent BCE Inc. to court if BCE cuts off funding to its subsidiary and asks noteholders to accept deep discounts on the face value of their notes.

Evan Flaschen, manager of the restructuring practice at Boston-based Bingham Dana LLP, said the firm has been hired by a group of major institutional bondholders in Canada and the United States representing about US\$500-million of Teleglobe's US\$1.22-billion in non-bank debt.

He said more debtholders are expected to join the group, adding that an ad hoc committee has been formed aimed at protecting bondholders' interests.

Montreal-based BCE on April 8 said it is considering all options for Teleglobe, including business combinations, continued or alternative financial support — or debt restructuring. BCE's said it had initiated a "reassessment of its ongoing funding."

Mr. Flaschen said the statement

"Many bondholders acquired their holdings or maintained their positions based on BCE's earlier assurances," Mr. Flaschen said yesterday.

He said bondholders expect to be paid the face value of their notes — regardless of market discounts that have seen the notes trade at as low as US20¢ on the dollar after the BCE statement and subsequent downgrades..

Mr. Flaschen also said bondholders expect to be treated on the same footing as bank lenders, calling both obligations "equal and unsecured," with legal recourse to Teleglobe, not BCE. Teleglobe, which builds and operates international fibre-optic networks, carries about US\$1.25-billion in debt owed to a syndicate of banks, with the obligation maturing in late July.

Mr. Flaschen said the bondholders' options include negotiation and litigation, adding that the group is pursuing the former with BCE. He said BCE lawyers have been contacted, while bondholders represented by Bingham Dana plan talks with the company, Canada's largest telecommunications firm. He said the bondholders have declined to be identified.

A BCE spokesman noted the firm had said it would reveal its plans in conjunction with its first-quarter earnings report, scheduled for April 24.

He said BCE, which has warned of a shortfall in the quarter due to losses of its cellular service, has not

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"native financial support — or debt restructuring, BCE's said it had initiated a "reassessment of its ongoing funding." Mr. Flaschen said the statement amounts to a sharp reversal of BCE chief executive Jean Monty's previous declarations, noting that the CEO told Bay Street analysts at BCE's annual investors' day in December that the company would continue to financially assist its struggling unit.

Mr. Monty said BCE would inject additional cash this year since Teleglobe throws off insufficient revenue to cover its debt service costs amid network overcapacity and plunging prices for voice and data transmissions.

BCE's statement on Teleglobe was cited by credit-rating agencies in their downgrades of Teleglobe debt last week. They said that a pullback of BCE funding could force Teleglobe to default on its bank and non-bank obligations.

its first-quarter earnings report, scheduled for April 24. He said BCE, which has warned of a short fall in the quarter due to losses at its subsidiaries, has not decided on any course of action.

Mr. Flaschen, meanwhile, would not say if the bondholders would accept any compromise on the value of their notes to reflect declines in the telecom sector.

Daval Ghose, an analyst with CIBC World Markets, said he believes BCE will offer bondholders US20¢ on the dollar for a total of about US\$390-million in cash. He said in a presentation to investors that new bonds would carry half of original face value, adding that banks might accept 20% of their investment in Teleglobe. BCE would get a refreshed bank line of credit, but at higher interest.

Shares in BCE fell by 93¢ yesterday to close in Toronto at \$23.85.

*Financial Post*  
mlewis@nationalpost.com

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e Gazette (Montréal, QC)

**Verbatim eMedia**

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Page: D3

1/1

Position

# TELEGLOBE DEBT

# Bondholders hire law firm

## Shock waves from BCE's statement

KEVIN BELL

*Bloomberg News*

NEW YORK — BCE Inc.'s Teleglobe bondholders banded together and hired a law firm to protect their investments after the company said it may stop funding the money-losing unit or restructure its debt.

The group, which holds as much as \$500 million of Teleglobe's \$1.2 billion of debt in the U.S. and Canada, is prepared to take legal action to protect its investments, said Evan Flaschen, a lawyer with Boston-based Bingham Dana LLP, which was hired by the group. He declined to name the investors.

BCE, Canada's largest telecommunications company, said on April 8 it had begun a review of alternatives for Teleglobe, including possible business combinations, restructuring and alternative financing. It plans to make public details of any action on April 24, when it provides first-quarter results.

### 'WE'RE ORGANIZED'

"We want them to know before then that we're out here and we're organized," Flaschen said.

"We believe BCE made a number of representations, as supporting Teleglobe, and we hope and trust they will continue to support Teleglobe."

Teleglobe operates an international fiberoptic and satellite network carry-

ing Internet data and voice signals.

BCE spokesman Don Doucette declined to comment on the debtholders' statement. BCE's shares fell 88 cents, or 3.8 per cent, to \$23.85 in Toronto trading.

"We have merely announced that we're looking at our options," he said. "We've not made any concrete decisions, and they'll be discussed on April 24."

This month, Moody's Investors Service cut Teleglobe's credit rating to junk on concern it may default without support from its parent. The credit-rating agency reduced its rating to Ba3 from Baa3 on the \$1.2 billion of debt.

### RESTRUCTURING LIMITATIONS

BCE will have to treat its Teleglobe bondholders the same way as holders of its \$1.25-billion bank debt in any restructuring, one newspaper report said. That means it can't force bondholders to accept a plan that would give them less than the banks, the report said.

Bingham Dana said in its statement that the debtholders have long viewed BCE and Teleglobe as parts of the same organization, and will "review their alternatives carefully."

Flaschen said he expects more institutional investors will join the group.

"The company's press release caught a lot of people by surprise, so it wasn't hard to get organized and find each other quickly," he said.

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